

THE DIRECTOR OF  
CENTRAL INTELLIGENCE

National Intelligence Council

18 April 1986

NOTE TO: Chief, SE Division

FROM: George Kolt  
NIO for Europe

Attached is memo as promised.

  
George Kolt


Attachment:  
TS 863522

**CONTROL AND COVER SHEET FOR TOP SECRET DOCUMENT (COLLATERAL)**

**SUBJECT/TITLE:**

CIA ORIGINATOR (Directorate, Office, Division, Branch)

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DATE	DATE	DATE

TOP SECRET

The Director of Central Intelligence  
Washington, D.C. 20505

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National Intelligence Council

TS NO. 863522  
11 April 1986

MEMORANDUM FOR THE RECORD

FROM:

Assistant National Intelligence Officer for Europe

25X1

SUBJECT:

Yugoslavia's Anti-IMF Tactics

SUMMARY: Belgrade has charted an approach toward the IMF which may bring it into conflict with Western lenders over rescheduling conditionality beginning in mid May. The Yugoslavs since late 1985 have been planning to unilaterally soften some austerity measures

In fact, however, most of the planning group appears confident that the West will back down from a showdown rather than damage its interest in Yugoslav stability. Working on such assumptions Belgrade, always tough in rescheduling negotiations anyway, is likely to be downright truculent this year. This might well thrust Yugoslavia into the limelight as a banner carrier for third world debtors as the NAM summit preparations begin. END SUMMARY

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1. Into its fourth year of financial crisis and IMF supervised austerity, Yugoslavia is anxious to restart its lagging economy in the hopes--probably vain--that new growth will show a way out of its seemingly hopeless financial fix. Lacking a consensus or commitment on market-style reforms which they earlier promised to try, many leaders are now willing to revert to artifices which led the boom in the last decade--at the risk of deepening structural weaknesses and feeding inflation.

2. The main issue is the IMF insistence that Yugoslavia adopt real interest rates, thereby halting a de facto subsidy to insolvent industries. Since being applied last year interest rates soared to meet the record 80 per cent inflation of 1985. There were several serious impacts.

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- Some firms once thought viable went into the red.
- The most insolvent firms reported interest payments higher than gross income.
- Private individuals and organizations with large deposits in saving accounts made fortunes at the higher rates.

As these developments drew popular ire, politicians began to damn the IMF as the major disruptive factor in the economy.

3. In December Belgrade tried to roll back interest rates without IMF agreement. The plan failed--largely because the IMF and the United Kingdom insisted the Yugoslavs adhere to commitments or be declared in default of rescheduling agreements for 1985. Belgrade backed off and added this humiliation to its other simmering resentments against the IMF and the West. The Yugoslavs are also angry at the US for failing to support their demand for a multi-year rescheduling agreement. (The Yugoslavs know that many US officials think that Belgrade wants the MYRA in order to soften austerity and to prepare for a new financial crunch in 1988 when it will have to roll over previously rescheduled debt.) All of these frustrations weaken what little consensus there was in Yugoslavia for major economic reforms.

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5. Since backing down from its initial attempt to decrease interest rates Belgrade has drafted new measures--probably to be promulgated in May after the new government is in place--which will again roll back interest rates and lessen the bite of austerity in other ways.

- One new measure would "restructure" domestic debt, which in fact would be a first step in erasing a largely worthless collection of paper debt from loans long ago squandered. The IMF agrees that this problem needs to be cleaned up as firms still use these fictitious assets to secure new credit. But as Belgrade still has not demonstrated that it can control local borrowing, the IMF rightly fears a new borrowing binge would result.

Belgrade thus is ready to go back to its old wasteful ways and to defy the West when it protests. And the first confrontations will likely occur just as the Mikulic regime begins and the Yugoslav party prepares for its Thirteenth Congress which opens on 25 June. The chances of an orchestrated campaign against the IMF would increase during such transitional junctures in Yugoslav politics.

6. Moscow has criticized Yugoslavia's compliance with IMF standards and carped about creeping capitalist influences in the economy since the financial crisis began. Belgrade long ignored this nagging but welcomed some aspects of the heightened Soviet concern because it was affecting Soviet policy in ways favorable to Yugoslavia. Since Gorbachev came to power, this policy has gathered speed. Last year Moscow entered the bidding on the next Yugoslav nuclear power station and offered MIG-29s as the new fighter desired by the Yugoslav Air Force--both in hopes of derailing existing Western negotiations to meet these Yugoslav needs.

7. The Soviets may feel that their waiting game is paying dividends now that the IMF and the West are becoming the scapegoats for Yugoslavia's economic problems. A few Yugoslav leaders--angry at the West and frustrated by the divisions within the NAM--have begun to urge a swing eastward. [redacted] Serbia's new President-to-be Ivan Stambolic reportedly has expressed the view that Yugoslavia's future lies more with the USSR because it would somehow advance the Serbs' cause against Albanian nationalists in Kosovo.

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8. Moscow's game plan must in the end depend on some deviousness rather than any strong attraction to the majority of the Yugoslavs. The fact remains that Moscow cannot come near satisfying Yugoslavia's immediate needs for financing and high technology let alone offering a credible model for economic recovery. And the Kemlin is still far from convincing the bulk of Yugoslav opinion makers of its benevolent intent.

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9. But Belgrade's foreign policy planners are also being affected by the growing mood of anger at the debt crisis within Third World councils.

- Foreign Minister Dizdarevic [ ] sees a need for Yugoslavia to reestablish its independent credentials with those segments of the NAM which are skeptical of its past accommodations with the IMF and the Western "friends of Yugoslavia".
- Belgrade is also probably concerned that Moscow--which recently urged Third World debtors to convene a Conference on economic security--could use such tactics to further undermine Yugoslavia's stature in the NAM. The Yugoslavs thus could come under two-pronged pressure--directly from Moscow and from Moscow's surrogates like Cuba to "stand up to" to Western financial circles.

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10. In sum, we think that the Yugoslav leadership is becoming more inclined than in the past to join or even lead the NAM debtors in some new demands against the West's debt strategy. And one side effect of such a policy switch could be that Belgrade would willy-nilly be aligned with Moscow's strategy to an extent that we have not seen since Tito's last eastward "tilt" after the October War in 1973.

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TS NO. 863522  
11 April 1986

MEMORANDUM FOR THE RECORD

FROM:

[REDACTED]

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Assistant National Intelligence Officer for Europe

SUBJECT:

Yugoslavia's Anti-IMF Tactics

Distribution:

- 1 - Treasury/OS/OIS/Mulholland
- 2 - State/PP/John Van Oudenaren
- 3 - DDO/SE [REDACTED]
- 4 - A/NIO/EUR
- 5 - NIO/EUR chrono
- 6 - NIO/EUR 3.8
- 7 - DDI Registry

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Series B: Copy 1 of 1 - Treasury/OS/OIS/Douglas Mulholland

Series C: Copy 1 of 1 - Chief, DDO/SE Division

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**CONTROL AND COVER SHEET FOR TOP SECRET DOCUMENT (COLLATERAL)**

## Yugoslavia's Anti-IMF Tactics

**ATTENTION:** Access to the attached document is restricted to only authorized recipients or Top Secret control personnel. For accountability purposes, all designated individuals are to sign and date this form.

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The Director of Central Intelligence  
Washington, D.C. 20505

TS NO. 863518  
28 March 1986

National Intelligence Council

MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director-designate of Central Intelligence

THROUGH: George Kolt  
National Intelligence Officer for Europe

FROM: [REDACTED]  
Assistant National Intelligence Officer for Europe

25X1

SUBJECT: Yugoslavia's Anti-IMF Tactics

SUMMARY: Belgrade has charted an approach toward the IMF which may bring it into conflict with Western lenders over rescheduling conditionality beginning in mid May. The Yugoslavs since late 1985 have been planning to unilaterally soften some austerity measures [REDACTED]

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[REDACTED] In fact, however, most of the planning group appears confident that the West will back down from a showdown rather than damage its interest in Yugoslav stability. Working on such assumptions Belgrade, always tough in rescheduling negotiations anyway, is likely to be downright truculent this year. This might well thrust Yugoslavia into the limelight as a banner carrier for third world debtors as the NAM summit preparations begin. END SUMMARY

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3. In December Belgrade tried to roll back interest rates without IMF agreement. The plan failed--largely because the IMF and the United Kingdom insisted the Yugoslavs adhere to commitments or be declared in default of rescheduling agreements for 1985. Belgrade backed off and added this humiliation to its other simmering resentments against the IMF and the West. The Yugoslavs are also angry at the US for failing to support their demand for a multi-year rescheduling agreement. In public we say we are open-minded but Yugoslavia probably realizes that only the US Embassy in Belgrade and some State offices are genuinely receptive to the idea. The reason for skepticism is that others in the USG suspect that Belgrade wants the MYRA in order to escape close monitoring of its adherence to austerity and to prepare for a new financial crunch in 1988 when it will have to roll over previously rescheduled debt. All of these frustrations are making it difficult to sustain what little consensus there was in Yugoslavia for major economic reforms.

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TS NO. 863518  
28 March 1986

MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director-designate of Central Intelligence

FROM: [REDACTED]  
Assistant National Intelligence Officer for Europe

25X1

SUBJECT: Yugoslavia's Anti-IMF Tactics

Distribution:

- 1 - DCI
- 2 - DDCI-designate
- 3 - ER
- 4 - C/NIC
- 5 - A/NIO/EUR
- 6 - NIO/EUR chrono
- 7 - NIO/EUR 3.8
- 8 - DDI Registry

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## ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Yugoslavia's Anti-IMF Tactics

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Assistant NIO for Europe

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TS 863518

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28 March 1986

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2 Apr 1986

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the attention of  
State & Treasury